

CITY OF RICHARDSON CORPLAN

CHANGES EFFECTIVE MAY 16, 2002

CORPlan has been hit hard by cost increases for medical services and prescriptions over the last year. With medical and prescription costs increasing by 10-15 percent annually (and projected to continue increasing for the foreseeable future), CORPlan is now running a deficit of over \$375,000 through March 31, 2002 – and is projected to end this fiscal year with a deficit of \$744,000. The average monthly medical claims cost per employee is currently \$476 (compared to an average of \$302 four years ago).

As with other City budgets, CORPlan's budget must also be balanced by the end of each fiscal year. The City has done its best to absorb and contain increasing costs for health and prescription coverage over the past several years, without losing the integrity of the benefits, both by increasing the amount of City contributions and by making the following changes:

- Implemented plan design changes for inpatient hospital stays, out-of-pocket maximums, and retiree premium contributions – October 2001
- Increased office visit and prescription copayments – October 2001
- Implemented a new Preferred Provider Organization (North Texas Healthcare Network) to limit cost increases for medical claims – January 2001
- Implemented a new claims administrator (EPOCH) to lower costs – October 1999

All of these efforts were successful for a time, allowing the City to avoid increases in premium levels for active employees (there have been no dependent premium increases for active employees since October 1, 1997) and contain them at the lowest possible levels for retirees.

But now we find that there are few choices left to us in order to balance the budget for CORPlan and still provide a viable health insurance program for employees and retirees.

Therefore, we must implement the following changes effective May 16, 2002:

1. Increase Prescription copayments:

	Current	Copay as of 5-16-02
<u>Retail (30 day supply, max.)</u>		
Generic	\$5	\$10
Brand – Generic Not Available	\$15	\$25
Brand – Generic Available	\$15	\$40
<u>Mail (90 day supply, max)</u>		
Generic	\$6	\$20
Brand - Generic Not Available	\$20	\$50
Brand – Generic Available	\$20	\$80

2. Implement “Employee Only” Coverage premium of \$50 per month (\$25 per payperiod), and increase Dependent Coverage monthly premiums. These are pre-tax deductions. The first paycheck period to be impacted by these changes will be May 31, 2002.

MONTHLY PREMIUMS FOR ACTIVE EMPLOYEES

	Current			Rate as of 5-16-02			
	Premium	City	Employee	Premium	City	Employee	Difference
Employee Only	\$400	\$400	\$0	\$450	\$400	\$50	+\$50
Employee + 1*	\$517	\$400	\$117	\$592	\$400	\$192	+\$75
Employee + 2 or more*	\$553	\$400	\$153	\$637	\$400	\$237	+\$84

*includes “employee only” premium

NOTE: All coverage elections for employee and employee + dependent insurance include CORPlan’s medical, prescription, and dental coverage.

3. Increase Retiree Premiums to implement Phase III of the tiered Retiree Premium program (based on age and years of service to the City of Richardson) – see the attached chart - which maintains reasonable premiums for healthcare coverage. (Remember that retiree’s insurance coverage premiums previously were maintained for twelve years with no increases.)

We regret that these changes must be made, but they are necessary in order to continue to offer a reasonable healthcare insurance program for employees and retirees. The City of Richardson is only one of many employers faced with a serious dilemma in healthcare insurance costs. In a recent survey, over 60% of employers indicated they planned increases in employee and dependent premiums as a part of their strategy to balance costs for their health plans.

Many employers have also had to resort to tiered prescription copayment programs, with higher costs for brand name prescriptions when generic equivalents are available. (This is a factor of both the drug manufacturers’ “direct to consumer” advertising of recent years and development of many new and expensive prescription drugs.) In fact, some programs require the employee to pay the entire difference in costs between the brand and the equivalent generic. The City has chosen to implement an intermediate strategy.

The City is among the last to implement a premium for “employee only” coverage. 78% of private industry employers of similar size to the City require employees to contribute to “employee only ” coverage, and most local cities have also found this necessary on one or more of their insurance plans.

The changes made over the past few years, and those effective on May 16, 2002, have been designed to limit the impact on the majority of our employees while maintaining the high level of medical, dental, and prescription insurance programs to which our employees are accustomed.

With the changes shown above and on the attachment, the City anticipates there will be no need to make further changes in CORPlan plan design or premium levels through at least September 2003.

SPECIAL OPEN ENROLLMENT PERIOD FROM APRIL 15 – MAY 16, 2002

Due to the implementation of “employee only” premiums, other premium changes, and prescription copayment increases effective May 16, 2002, **the period of April 15 through May 16 will be a special open enrollment period.** Employees and retirees may add or drop allowable dependents during this period (allowable according to CORPlan’s Rules and IRS Section 125 regulations). To change dependent status, employees and retirees must complete the necessary dependent enrollment or cancellation forms and submit them to Human Resources no later than May 16, 2002.

With the implementation of an “employee only” premium, employees may choose to opt out of CORPlan coverage completely. (NOTE: Dependent coverage is NOT available if an employee opts out of CORPlan.) During this special open enrollment period, employees are urged to research other insurance options that may be available to them if considering opting out of CORPlan. Future re-enrollment will only be allowed during open enrollment (August 31 – September 30) or if a change in family status occurs as outlined under IRS 125 and HIPAA.

Employees who decide to opt out will be required to sign a written waiver of health/dental/prescription coverage. This form may be obtained from the Insurance Office in Human Resources, or call Becky Murray (972-744-4005) to have the waiver form sent to you by mail or by e-mail.

If employees and retirees decide not to make changes to coverage, it is not necessary to re-enroll in CORPlan. In other words, **current enrollments will be maintained unless necessary change forms and/or waivers of coverage are received in Human Resources by May 16, 2002.**

NOTE: CORPlan’s regular annual open enrollment period will be held as usual (from August 31, 2002 - September 30, 2002).

Please contact the Human Resources Office (972-744-4000) with any questions you may have about these changes.